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CONFIDENTIAL

Qz.02828

MR COLES

EUROPEAN COUNCIL

COMMUNITY RELATIONS WITH OTHER INDUSTRIALISED COUNTRIES

At the Prime Minister's briefing meeting this afternoon there was some discussion about what the Prime Minister should say during the Council itself (in addition to the lobbying that Sir Michael Butler and others will be doing behind the scenes).

2. The Department of Trade have asked for a small amendment to the draft I showed the Prime Minister. The revised version is attached.

D.H.

D J S HANCOCK

2 December 1982

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## COMMUNITY RELATIONS WITH OTHER INDUSTRIALISED COUNTRIES

1. At Geneva, the Community worked hard to maintain a common front and to ensure an outcome which was realistic and safeguarded our interests. Congratulate Commission. But underlying problems remain. I see a real risk that protectionist forces will gain the upper hand in the United States. What the Community does in next few weeks will therefore be of major importance. We have seen what happened on steel. The pipeline was another case where normal trading practices were all too quickly subordinated to other US policy considerations. Shultz will doubtless do his best to fight off protectionism. It is in our interest to help him. We must not supply ammunition to US protectionist lobbies.

- ① 2. We ought first to negotiate speedily on issues like exports of stainless and special steels in a pragmatic way. And while we are doing so, we must avoid retreating into protectionism ourselves. We should be very careful to minimise the risk that the Community will have to subsidise still bigger exports of agricultural surpluses in 1983 and 1984, in a way which would seriously provoke the United States, and which would also alienate other countries, including many LDCs. The need to finance enlargement and the need to avoid stimulating an agricultural trade war both point to taking great care to minimise surpluses. At its meeting with Shultz, Commission should explore ideas to reduce confrontation.
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- ③ 3. On Japan, we should get some help from the recent appreciation of the yen which has gained over 10 per cent against the dollar in the last month. But in our dealings with Japan, the United States or the developing countries, I think it is essential that the Community should operate effectively as a unit. We have to avoid unilateral statements and present a firm Community position to the new Japanese Government, stressing the unique strains that Japan's trading patterns are continuing to put on the open trading system.

4. Meanwhile important that we should not succumb to protectionism within the Community. Whatever our relations with third countries, we must not forget that free trade is what the Community is all about. We must work together towards completion of the internal market.